

MOSCOW'S ECONOMIC AID TO DEVELOPING
COUNTRIES: THE RECORD IN THE 1980s

A REFERENCE AID

This paper was prepared by [redacted]
[redacted] OGI/FSIC/CMP, with a
contribution from [redacted] Department
of Commerce.

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Preface

For the purpose of this report, the non-Communist less developed countries include all countries of Africa except the Republic of South Africa; all countries of East and South Asia except Hong Kong and Japan; all countries in the Caribbean and Latin America except Cuba; and all countries in the Middle East. Within this group, the term **Marxist states** refers to countries whose regimes have identified themselves as Marxist-Leninist and which rely on Communist military support to maintain power. These states are Afghanistan, Angola, Ethiopia, Mozambique, Nicaragua, and the People's Democratic Republic of Yemen (South Yemen). The Communist less developed countries mentioned in this report are Cambodia, Cuba, Laos, Mongolia, North Korea, and Vietnam.

The least developed countries (LLDCs) referred to in this report include: Afghanistan, Bangladesh, Benin, Bhutan, Burkina, Burma, Burundi, Central African Republic, Chad, Comoros, Ethiopia, Gambia, Ghana, Guinea, Guinea-Bissau, Haiti, India, Kenya, Madagascar, Malawi, Maldives, Mali, Mauritania, Mozambique, Nepal, Niger, Pakistan, Rwanda, Sao Tome/Principe, Senegal, Sierra Leone, Somalia, Sri Lanka, Sudan, Tanzania, Togo, Uganda, Zaire, and Zambia.

Aid Terminology

Commitment. An obligation, expressed in an agreement or contract, to provide aid under specific terms and conditions for the benefit of the recipient country.

Disbursement. The actual transfer of resources, such as goods, services, and funds. Also referred to as aid deliveries or drawings. Gross disbursements represent total amounts disbursed, while net disbursements exclude principal repayments.

Development Assistance Committee (DAC). The Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD) was formed in 1962 to coordinate aid policies and conditions among Western donors. Members of the DAC are Australia, Austria, Belgium, Canada, Denmark, Finland, France, the Federal Republic of Germany, Italy, Japan, the Netherlands, New Zealand, Norway, Sweden, Switzerland, the United Kingdom, and the United States.

Official Development Assistance (ODA). Flows to developing countries and multilateral institutions (such as the World Bank) provided by governments and official agencies, which meet certain tests:

- o Their main objective is to promote the economic development and welfare of developing countries, and
- o They are concessional in character, containing a grant element of at least 25 percent.

Official Development Assistance takes the following forms:

- o **Grants:** Transfers in money or in kind which require no repayment. This category includes repayment of hard currency loans in local currencies.
- o **ODA Loans:** Loans extended by governments or other official agencies with maturities over one year that meet grant element (see below) and other criteria, for which payment is required in convertible currency or in kind.

Other Official Flows. Transactions by the official sector whose main objective is other than development, or whose financial terms convey a grant element below the 25 percent threshold. In this report, other official flows are called **trade credits**.

Grant element. The grant element formulation uses the financial terms of a transaction, such as interest rate, length of repayment period, and grace period (interval to first repayment of capital) to calculate the benefit of ODA loans to the recipient. It assesses how close the loan is to an outright grant. The extent of benefit depends on the difference between the ODA interest rate and market rates and the length of time the funds are available to the borrower. A loan generally will not convey a grant element of 25 percent (the minimum rate for ODA) if its maturity is less than 10 years at more than 4.5 percent interest.

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Introduction

In a dramatic speech to the UN in December 1988, Soviet President Gorbachev offered to excuse the debt owed to the USSR by the least developed countries (LLDCs), and called on international banks to reduce commercial debt for all LDCs. This offer is the latest in a series of increasingly sophisticated initiatives undertaken by Gorbachev to improve international opinion about Moscow's economic aid. Much of the Soviet effort has focused on comparing the size, scope and generosity of Soviet aid programs with US and other Western programs, and on promoting Moscow as a credible alternative to traditional Western donors. Toward this end, Moscow has made some extravagant claims which do not stand up to close scrutiny when compared with Western programs.

Except for Afghanistan, Soviet aid programs look much as they did when they began in 1954: Moscow targets a few countries of strategic interest, and only preferred clients receive concessional aid. Moscow's best loan terms to LDCs barely qualify as aid by Western standards, and Official Development Assistance (ODA), which consists of grants and long-term, low-interest loans, accounts for a small share of official Soviet flows to non-Communist LDCs. In the 1980s, Moscow has moved steadily toward the use of trade credits with harder repayment terms to promote Soviet exports.

Politics Before Development

The Soviet economic aid program in developing countries always has been geared primarily toward gaining access to LDC policy makers and the rich resources under their control rather than promoting LDC development objectives. From the beginning, Moscow's aid agreements were intended to promote Soviet interests by:

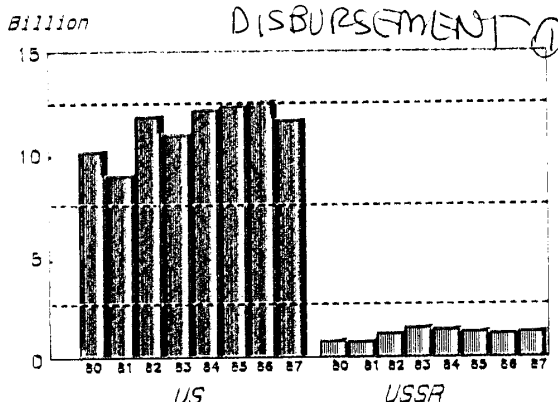
- o Reducing Western influence;
- o Establishing a band of allies along Russia's borders to enhance security;

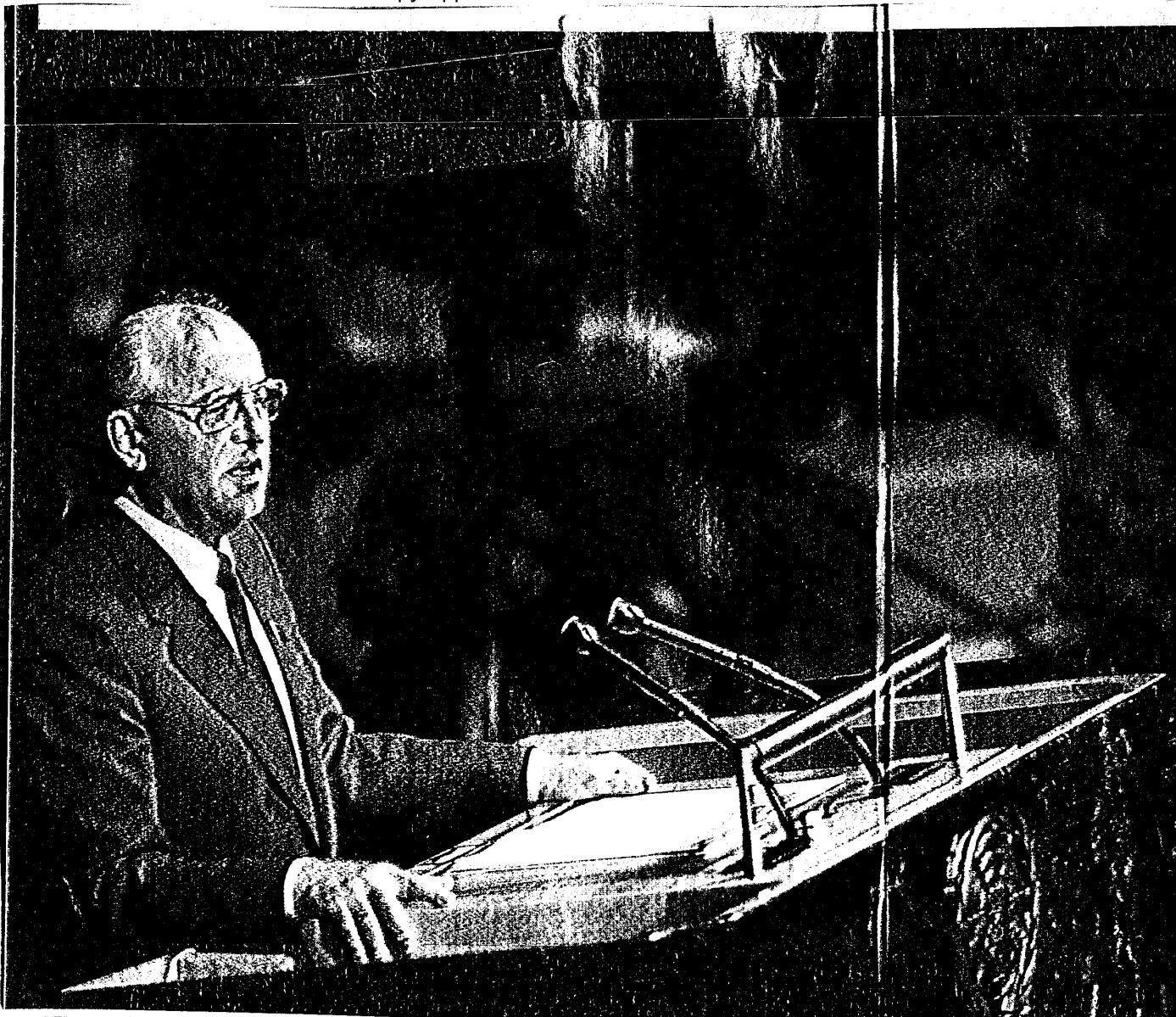
- o Supporting leftist and anti-Western governments as part of the Soviet obligation to the world Communist movement;
- o Thwarting challenges to Moscow's leadership of national liberation movements in newly independent countries;
- o Convincing Third World countries that Soviet Communism could solve their economic problems, and;
- o Gaining outlets for Soviet low-tech machinery and equipment not marketable in the West in return for strategic raw materials.

In large measure, these objectives still shape Soviet aid strategy today, contrasting sharply with the guidelines formally adopted by the U.S. and other Western donors.

Most Western aid programs have as their primary objectives **improving the delivery of basic goods and services to LDCs and promoting orderly economic development in recipient countries.** By contrast, Moscow has never tailored the volume or conditions of its aid to Western standards, even under pressure from developing countries. The Soviet program is the least concessionary of those outside the Warsaw Pact, accounting for less than 5 percent of official financial flows to non-Communist LDCs each year. Further, only about 10 percent of Soviet aid is provided as grants; food aid (excluding Afghanistan) averages less than \$15 million a year even though clients such as Angola, Ethiopia, and Mozambique are facing wide-spread famine. Interestingly, these states look to the West for up to \$500 million a year in support.

Soviet and US Economic Aid Flows to Non-Communist LDCs, 1980 - 1987



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The Proposal

Appearing before the UN General Assembly on 7 December 1988, Soviet President Gorbachev made the following statement on Third World debt:

"...Taking a realistic look at things, one must acknowledge that the accumulated debt cannot be paid, that it cannot be recovered on the original terms. The Soviet Union is prepared to establish a long-term moratorium, up to 100 years, on the payment of debts by the least developed countries and, in a whole series of cases, to write off the debts completely. As far as other developing countries are concerned, we invite you to consider the following:

- o To limit payments on their official debts in accordance with the indices of economic development for each of them, or to declare the long-term deferral of a large part of the payments.

- o To support the appeal of the UN Conference on Trade and Development to reduce indebtedness to commercial banks.
- o To provide governmental support for market mechanisms for settling Third World debts, including the creation of a specialized international institution for buying up debts at a discount.

The Soviet Union advocates specific discussion of ways of settling the debt crisis at multilateral forums, including consultations of heads of government of debtor and creditor nations held under the aegis of the UN." [REDACTED]

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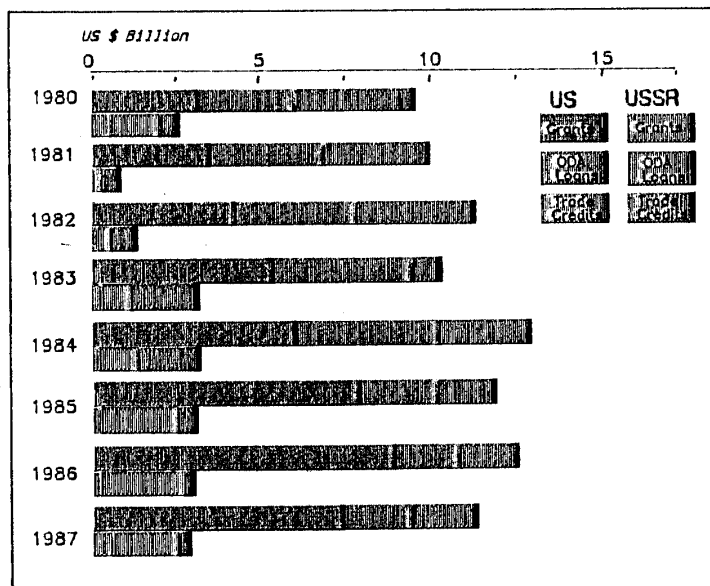
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Economic aid has not been the USSR's primary instrument to expand influence in LDCs, and the USSR has not tried to compete with Western aid funding, even in key Marxist LDCs. In fact, Moscow has encouraged such radical allies as Ethiopia and Nicaragua to protect access to Western programs because the USSR is not willing to replace them. Ethiopia, for example, received more than \$300 million of U.S. grant aid in 1980-87 compared to \$30 million in Soviet grants during the same period.

Moscow has concentrated on building influence through arms transfers which offer the chance to place Soviet advisory personnel in key LDC military power structures. During the 1980s, Soviet arms transfers to non-Communist LDCs outpaced economic aid deliveries by 10 to 1. This diversion of LDC resources to acquire military equipment has kept Moscow's major long-term economic aid recipients -- mostly the Marxist states -- firmly entrenched in the UN's category of the world's poorest countries even after 30 years of Soviet assistance.

Economic Aid Pledges to LDCs by Type, 1980 - 1987-1988

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The Military Relationship

remains unchanged since the 1950s.

We do not foresee a significant change in the division of resources between military and economic programs. The latter continue to run a distant second to arms transfers as a mechanism for enhancing influence. In the 1980s, the USSR delivered more than \$100 billion in arms to 41 countries, compared to only \$10 billion in economic aid.

Through its military programs, Moscow has gained access to strategic bases for its navy and air force, earned hard currency, and created a lasting dependence in key countries for Soviet military spares and follow-on support. Most of the estimated \$75 billion in debt to Moscow incurred by non-Communist LDCs -- the equivalent of about \$30 per capita for every citizen in the non-Communist developing world -- has come from military purchases. In spite of domestic stringencies, the USSR has held military deliveries to non-Communist countries close to \$15 billion a year since Gorbachev assumed power.

SUMMARY TABLE (2) Soviet and US Economic and Military Deliveries to Non-Communist LDCs, 1980 -- 1987-1988

USSR \$110 Billion



US \$150 Billion



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